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AGENDA ITEM 8d

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** International Equity Manager Annual Review
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Renew the contracts of CalPERS' passive international index fund manager, four active All-World ex-U.S. managers, two active European managers, one active Pacific Basin manager, and three active emerging markets managers for a period of one year. Wilshire Associates' opinion letter is shown in Attachment 1. Wilshire Associates' disclosure letter is shown in Attachment 2. The managers are:

Passive Developed Markets Equity Index Fund Manager

State Street Global Advisors

Active All-World ex-U.S. Equity Managers

Arrowstreet Capital

Baillie Gifford

Grantham, Mayo, Van Otterloo

Robeco USA

Active European Equity Managers

AXA Rosenberg

Capital Guardian

Active Pacific Basin Managers

Nomura Asset Management

Active Emerging Markets Equity Managers

AllianceBernstein Institutional

Dimensional Fund Advisors

Genesis Asset Managers

IV. ANALYSIS:

Executive Summary

The performance of the external international equity manager program for the fiscal year ending June 30, 2005 was positive. Total program performance was 0.49% above benchmark, as shown in Table 3 of the report.

A number of actions have been taken to improve performance of the active manager lineup. Four underperforming managers resigned during the fiscal year, with another active manager resigning in August 2005. At its April 18, 2005 meeting, the Investment Committee approved a pool of active international managers and a pool of international enhanced index managers, with funding expected shortly. In addition, staff is seeking Investment Committee approval to add three additional managers to these pools at the September 19, 2005 Investment Committee meeting. Finally, the Investment Committee approved at its August 15, 2005 meeting the issuance of an RFP to establish pools for developed ex-U.S. managers and emerging markets managers.

Staff will continue to make changes as necessary to the existing group of managers in addition to researching more innovative strategies for this asset class.

Background

CalPERS' external international equity program consists of 10 active managers and one passive index fund manager. These managers were hired or rehired by the Investment Committee over multiple years, including two in 1989 when CalPERS began investing in international equity markets. Arrowstreet is a graduate from the Manager Development Program.

Four international managers resigned during the fiscal year, and one resigned in late August.

All of the international managers have one year renewable contracts contingent upon the Investment Committee's annual approval as recommended in this agenda item. Each contract also contains a provision allowing for termination upon 30 days' notice.

Assets under Management

As of July 31, 2005, total assets under management by the international managers reviewed in this agenda item were approximately \$35.2 billion. Table 1 shows the assets managed by each manager as of this date.

Table 1

| Manager | Mandate | Portfolio Value (in \$ millions) | Portfolio Percent |
|--|-------------------|---|------------------------------|
| Arrowstreet Capital | All-World ex-U.S. | 748.6 | 2.1 |
| Baillie Gifford | All-World ex-U.S. | 753.4 | 2.1 |
| Grantham, Mayo, Van Otterloo & Co. | All-World ex-U.S. | 939.7 | 2.7 |
| Robeco USA | All-World ex-U.S. | 409.3 | 1.2 |
| Total Active All-World ex-U.S. Equity | | 2,851.0 | 8.1 |
| AXA Rosenberg | Europe | 952.5 | 2.7 |
| Capital Guardian | Europe | 534.6 | 1.5 |
| Total Active Europe Equity | | 1,487.1 | 4.2 |
| Nomura Asset Management | Pacific Basin | 830.7 | 2.3 |
| Total Active Pacific Basin Equity | | 830.7 | 2.3 |
| AllianceBernstein Institutional | Emerging Mkts | 1,390.4 | 3.9 |
| Dimensional Fund Advisors | Emerging Mkts | 1,509.0 | 4.3 |
| Genesis Asset Managers | Emerging Mkts | 1,232.7 | 3.5 |
| Total Active Emerging Mkts Equity | | 4,132.1 | 11.7 |
| Total Active International Equity | | 9,300.9 | 26.4 |
| State Street Global Advisors | Intl Developed | 25,945.7 | 73.6 |
| Total International Equity | | 35,246.6 | 100.0 |

Source: State Street Bank

Market Environment

Calendar year 2004 ended with strong international stock markets as money flowed into equities on the optimism about the continued global economic recovery and strong corporate profit growth after the November US elections. The leadership of the US economy suggested manufacturing activity would remain strong globally, boosting corporate profits and consumer sentiment. Concerns over the insurgency in Iraq and high oil prices, which receded some in the 4th quarter, gave way to solid economic news.

China and other Asian economies outpaced most other regions in GDP growth. Japan struggled to emerge from its long deflationary period by benefiting from the strong Chinese economy. Europe finished drafting its constitution and adjusted to the accession of 10 former Soviet and Baltic states into its Euro economy. Emerging countries continued their strong growth as well.

International stocks leveled off in early calendar year 2005 and remained flat in the second quarter. As economic data became mixed with higher inflation numbers and mixed employment growth coming to the fore, investors rotated to higher quality earnings growth and defensive sectors. The second quarter also saw higher oil prices, moderating GDP growth, and concerns about an economic slowdown in

China. The US Federal Reserve continued its tightening cycle in June by raising the federal funds rate by 25 basis points for the 9th consecutive time to 3.25%. The first half of 2005 concluded with investors trying to determine the endpoint to the current Fed tightening cycle.

As an indication of international equity performance during the fiscal year, the returns of the five custom international indices during this last fiscal year are shown below in Table 2. The Custom FTSE All Emerging Index performed the best with a positive 35.1% return. These indices may be compared to the CalPERS Custom Wilshire 2500 US Equity Index return of 7.55% over the same period.

Table 2

| Index | Return for the Year Ending June 30, 2005 |
|--|---|
| Custom FTSE All World ex US | 16.9% |
| Custom FTSE All World Europe | 17.1% |
| Custom FTSE All World Asia Pacific | 11.2% |
| Custom FTSE All Emerging | 35.1% |
| Custom FTSE Developed ex US ex Tobacco | 14.9% |

Source: FTSE

Currency Effect

The U.S. dollar (USD) strengthened slightly against developed market currencies during the period July 2004 to June 2005. The USD was volatile against the Euro during the fiscal year, but ended at 1.21; up from 1.22 (USD/EUR) at the beginning of the fiscal year. The USD followed a similar path versus British Pound Sterling, increasing from 1.82 to approximately 1.79 (USD/GBP). The Japanese Yen weakened to 111, down from 109 (JPY/USD) where it began the year.

Program Performance Objective

The performance objective of the passive portfolio differs from the performance objectives of the active portfolios. The passive portfolio's objective is to match the benchmark return and to minimize tracking error to the benchmark.

The performance objective for the actively managed portfolios is to exceed the benchmark returns, net of management fees, over a full market cycle, considered to be three to five years. The benchmark for each portfolio is customized to the manager's mandate and for CalPERS' permissible equity market list.

The active All-World ex-U.S., Europe and Pacific Basin managers are benchmarked to custom FTSE indices which exclude non-permissible equity markets. The emerging markets managers are benchmarked to a custom FTSE index which includes only permissible emerging equity markets. The passive

developed markets index manager is benchmarked to a custom FTSE index which includes only developed market countries and excludes tobacco related equities. The international equity program in aggregate is benchmarked to the CalPERS Custom FTSE All-World ex US index.

Program Performance

Over the 2004/2005 fiscal year, the CalPERS International Equity portfolio in aggregate outperformed the custom benchmark by 0.49%. The active All-World ex U.S. managers outperformed their benchmark by 0.59%, the Europe managers underperformed their benchmark by 0.50%, the Pacific Basin managers underperformed their benchmark by 0.99%, the Emerging Markets managers outperformed their benchmark by 7.84% and the passive portfolio outperformed its benchmark by 0.19%. Since inception (July 1989), the combined portfolio outperformed its benchmark by 0.16% on an annualized basis. All returns in this report are net of management fees.

Table 3 below details composite returns over the most recent five fiscal years along with the annualized since inception returns. Program performance includes the performance of managers whose contracts have been terminated or who have resigned.

Table 3

| International Equity Performance in Percent | Fiscal Year 00/01 | Fiscal Year 01/02 | Fiscal Year 02/03 | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-----------------------------------|
| Total Active Intl All-World | (25.41)% | (8.50)% | (8.55)% | 27.86% | 17.50% | 5.75% |
| Custom All World ex US Index | (23.75)% | (8.76)% | (4.58)% | 31.70% | 16.91% | 4.86% |
| Active Return | (1.66)% | 0.26% | (3.97)% | (3.84)% | 0.59% | 0.89% |
| | | | | | | |
| Total Active Intl Europe | (19.93)% | (5.58)% | (6.94)% | 28.42% | 16.64% | 10.41% |
| Custom Europe Index | (21.56)% | (7.59)% | (4.72)% | 28.82% | 17.14% | 9.75% |
| Active Return | 1.63% | 2.01% | (2.22)% | (0.40)% | (0.50)% | 0.66% |
| | | | | | | |
| Total Active Intl Pacific Basin | (30.44)% | (6.40)% | (8.88)% | 37.28% | 10.16% | 3.62% |
| Custom Asia Pacific Index | (28.61)% | (10.76)% | (8.72)% | 38.40% | 11.15% | (0.80)% |
| Active Return | (1.83)% | 4.36% | (0.16)% | (1.12)% | (0.99)% | 4.42% |
| | | | | | | |
| Total Active Intl Emerging Mkts | N/A | N/A | 15.01% | 34.38% | 42.95% | 31.23% |
| Custom Emerging Index | N/A | N/A | 10.22% | 33.45% | 35.11% | 26.55% |
| Active Return | | | 4.79% | 0.93% | 7.84% | 4.68% |
| | | | | | | |
| Total Passive Only Intl | (21.47)% | (9.08)% | (4.68)% | 31.55 | 15.07% | 4.74% |
| Custom All World ex US | (21.93)% | (9.02)% | (5.10)% | 31.55 | 14.88% | 4.94% |
| Active Return | 0.46% | (0.06)% | 0.42% | 0.00% | 0.19% | (0.20)% |
| | | | | | | |
| Total Active & Passive Intl | (22.08)% | (8.68)% | (5.35)% | 30.92% | 17.40% | 6.01% |
| Custom All World ex US | (21.93)% | (9.02)% | (4.74)% | 31.70% | 16.91% | 5.85% |

| | | | | | | |
|----------------------|----------------|--------------|----------------|----------------|--------------|--------------|
| Active Return | (0.15)% | 0.34% | (0.61)% | (0.78)% | 0.49% | 0.16% |
|----------------------|----------------|--------------|----------------|----------------|--------------|--------------|

Source: State Street Bank Returns are net of fees

Performance Attribution

Performance of the Active All-World ex-U.S. program improved during the last fiscal year due to two factors. The first was the program's restructuring and resignations by several underperforming managers.

The second contributor to the program's outperformance was the reduction in the growth style bias in the active investment managers' investment processes. Assets were reduced from the underperforming and/or growth style biased managers. Over this last fiscal year, the growth style underperformed the value style by approximately 2%, according to the Citigroup Broad Market Growth versus Value indices, as shown in Table 4 below.

Table 4

| Style Index | Return for the Year Ending June 30, 2005 |
|---|---|
| S&P/Citigroup BMI Growth World ex US | 15.7% |
| S&P/Citigroup BMI Value World ex US | 17.4% |
| S&P/Citigroup Global x US PMI (large cap) | 15.6% |
| S&P/Citigroup Global x US EMI (small cap) | 20.3% |

Source: Zephyr StyleADVISOR

Table 5 below shows the individual managers' returns comprising the portfolio aggregate returns.

Table 5

| Active Managers | Fiscal Year 02/03 Active Return | Fiscal Year 03/04 Active Return | Fiscal Year 04/05 Active Return | Calendar Year-To- Date Active Return | Since Inception Annualized Active Return through June 30, 2005 | Inception |
|---|--|--|--|---|---|------------------|
| Intl Active All-World Mgrs | | | | | | |
| Arrowstreet Capital | (2.74)% | (4.60)% | 6.96% | 1.40% | (0.09)% | Feb 2003 |
| Baillie Gifford | (0.90)% | (7.23)% | 5.16% | 3.16% | (0.35)% | June 2001 |
| Grantham, Mayo, Van Otterloo & Company | 3.46% | 1.69% | (0.64)% | (0.84)% | 5.06% | June 2001 |
| Robeco USA | (2.32)% | (4.04)% | 0.60% | 0.11% | (1.30)% | Aug 2001 |
| Intl Active Europe Mgrs | | | | | | |
| AXA Rosenberg | (0.78)% | 0.44% | 2.23% | 0.73% | 2.08% | Feb 2001 |
| Capital Guardian | 0.29% | 0.62% | (2.60)% | 0.24% | (0.14)% | Feb 2001 |
| Intl Active Pacific Basin Mgrs | | | | | | |
| Nomura Asset Management | 2.43% | 0.86% | (0.56)% | 0.74% | 4.71% | Aug 1989 |
| Intl Active Emerging Mkts Mgrs | | | | | | |

| | | | | | | |
|--------------------------------|---------|---------|--------|---------|---------|----------|
| AllianceBernstein | 8.66% | 1.65% | 15.65% | (0.14)% | 8.87% | Aug 2002 |
| Dimensional Fund Advisors | 7.98% | 2.62% | 2.29% | (0.09)% | 4.69% | Aug 2002 |
| Genesis Asset Managers | (0.79)% | (2.50)% | 6.52% | 2.06% | 0.92% | Aug 2002 |
| Intl Passive Index Fund | | | | | | |
| State Street Global Advisors | 0.42% | 0.00% | 0.19% | 0.16% | (0.20)% | Aug 1989 |

Source: State Street Bank Returns are net of fees

The following two charts show additional profiles of the external international equity program as of June 30, 2005. Chart 1 plots calendar year absolute performance of the total program and its benchmark, along with the cumulative active return of the total program since inception. Chart 2 plots the risk/return profile of each of the program components according to active return for actual level of tracking error. The size of the bubbles reflects the proportion of assets in each product as of June 30, 2005.

Chart 1

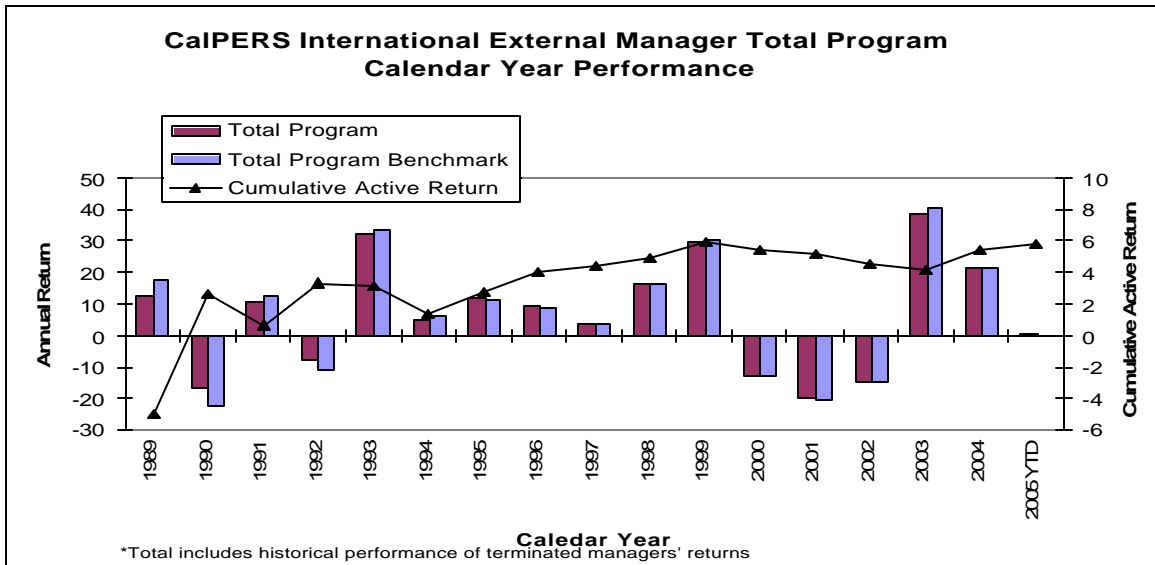
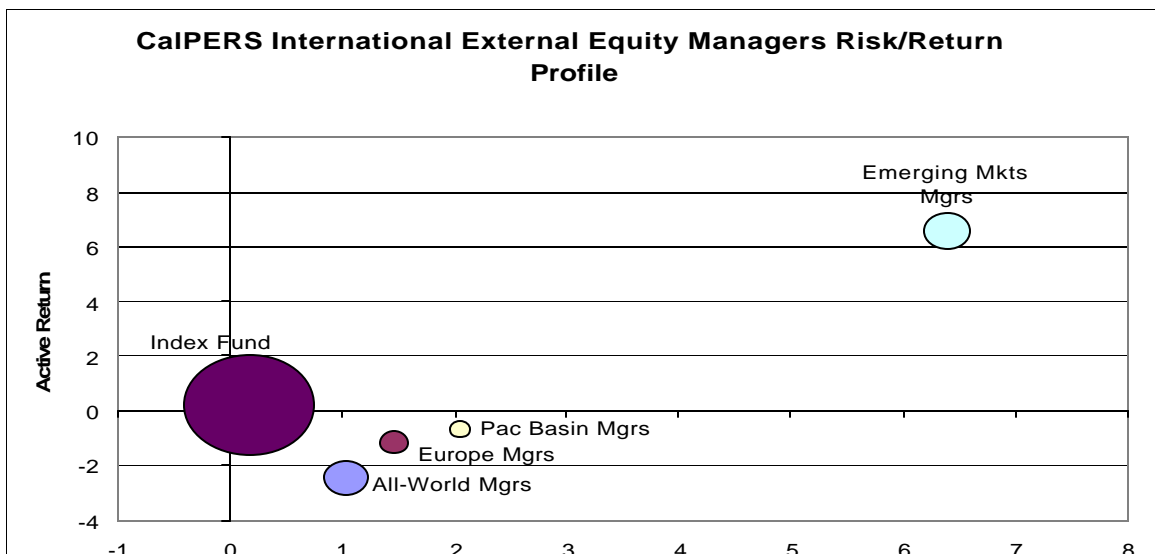


Chart 2 (Period reflected for managers' risk/return profile is July 2002 to June 2005 for all managers).



The following pages provide information on the managers in the international equity program. The performance shown for each manager is net of fees.

Individual Manager's Performance and Evaluation

AllianceBernstein (Emerging Markets Equity)

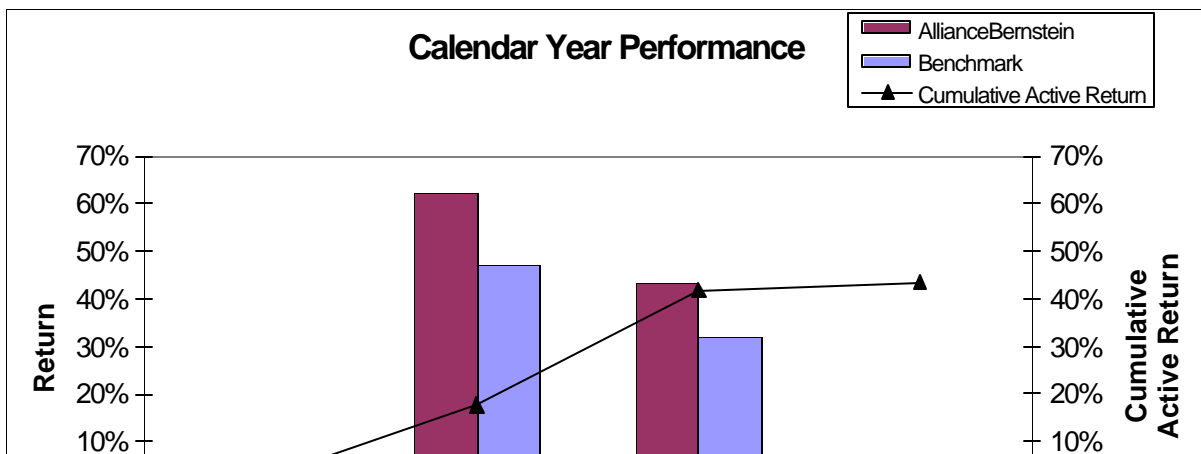
AllianceBernstein was funded on July 31, 2002. This emerging market portfolio has a value style of investing with both a macro country analysis and a micro stock selection process. The country analysis seeks to obtain the best balance of long-term return and risk among the emerging markets that meet AllianceBernstein's investability criteria and comply with the CalPERS Permissible Equity Market list. The portfolio typically holds around 100 stocks. Assets under management as of June 30, 2005 were \$1.28 billion.

Since its inception date through June 30, 2005, AllianceBernstein outperformed its benchmark by 8.87% annualized. This outperformance was due to good stock selection and country allocation decisions particularly in the Taiwanese information technology sector.

| International Equity Manager | Fiscal Year 02/03* | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|-------------------------------------|---------------------------|--------------------------|--------------------------|------------------------------------|
| AllianceBernstein | 18.88% | 35.10% | 50.76% | 35.42% |
| Benchmark | 10.22% | 33.45% | 35.11% | 26.55% |
| Active Return | 8.66% | 1.65% | 15.65% | 8.87% |

*Inception Date 07/31/2002 Source: State Street Bank Returns are net of fees

The chart below shows AllianceBernstein's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures AllianceBernstein's cumulative performance relative to the benchmark.



Arrowstreet Capital (All-World International Equity)

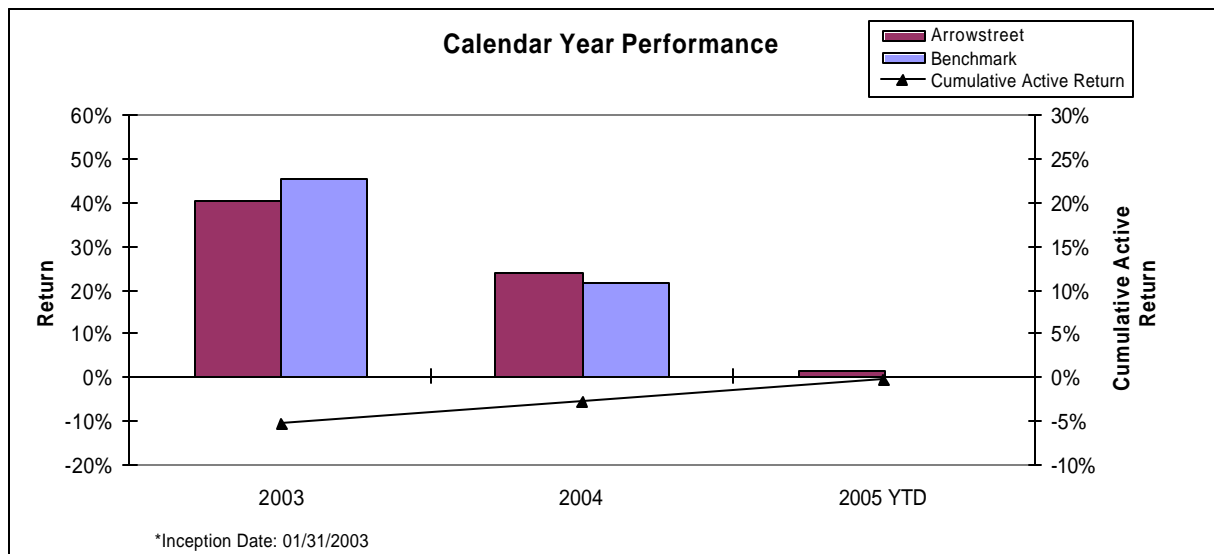
Arrowstreet Capital, a graduate from the Manager Development Program, was funded on January 31, 2003 as an active international equity mainstream manager. Arrowstreet uses a quantitative approach to evaluate a large universe of securities for multiple sources of excess return. The multiple sources include both behavioral and informational factors such as valuation, momentum, size, and estimate revisions. An optimal portfolio is developed using a proprietary optimization process that evaluates the trade off among forecast return for each security, several measures of risk, transaction costs, and any defined client constraints. Assets under management as of June 30, 2005 were \$719.7 million.

Arrowstreet significantly outperformed its benchmark during the fiscal year ending June 30, 2005. An overweight in Norwegian resources, driven by the run-up in oil prices, and an underweight in Japan, due to poor economic performance, were the primary drivers of the outperformance.

| International Equity Manager | Fiscal Year 02/03* | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|--------------------|-------------------|-------------------|-----------------------------|
| Arrowstreet | 12.04% | 27.10% | 23.87% | 26.48% |
| Benchmark | 14.78% | 31.70% | 16.91% | 26.57% |
| Active Return | (2.74)% | (4.60)% | 6.96% | (0.09)% |

*Inception Date: 01/31/2003 Source: State Street Bank Returns are net of fees

The chart below shows Arrowstreet's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Arrowstreet's cumulative performance relative to the benchmark.



AXA Rosenberg (European Equity)

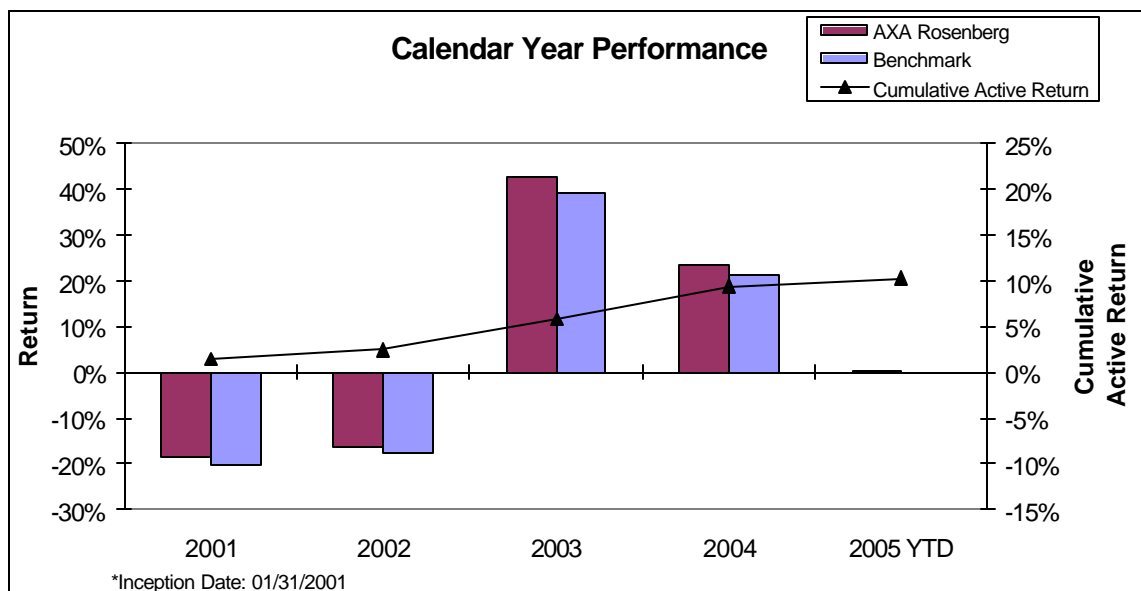
AXA Rosenberg was funded on January 31, 2001. AXA uses a quantitative process to find undervalued stocks relative to their industry, sector, and market capitalization. There are several quantitative models in this process, including a risk model which builds a portfolio with the most attractive risk-return trade off. The AXA portfolio holds between 100 to 150 stocks. Assets under management as of June 30, 2005 were \$909.3 million.

The table below shows AXA's performance relative to its benchmark since inception by fiscal year through June 30, 2005. Since inception, AXA has outperformed by 2.08% annualized due to good stock and sector selection, particularly in the financial, consumer discretionary, and information technology sectors.

| International Equity Manager | Fiscal Year 00/01* | Fiscal Year 01/02 | Fiscal Year 02/03 | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|
| AXA Rosenberg | (12.94)% | (5.12)% | (5.50)% | 29.26% | 19.37% | 4.30% |
| Benchmark | (17.06)% | (7.59)% | (4.72)% | 28.82% | 17.14% | 2.22% |
| Active Return | 4.12% | 2.47% | (0.78)% | 0.44% | 2.23% | 2.08% |

*Inception Date: 01/31/2001 Source: State Street Bank Returns are net of fees

The chart below shows AXA's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures AXA's cumulative performance relative to the benchmark.



Baillie Gifford (All-World International Equity)

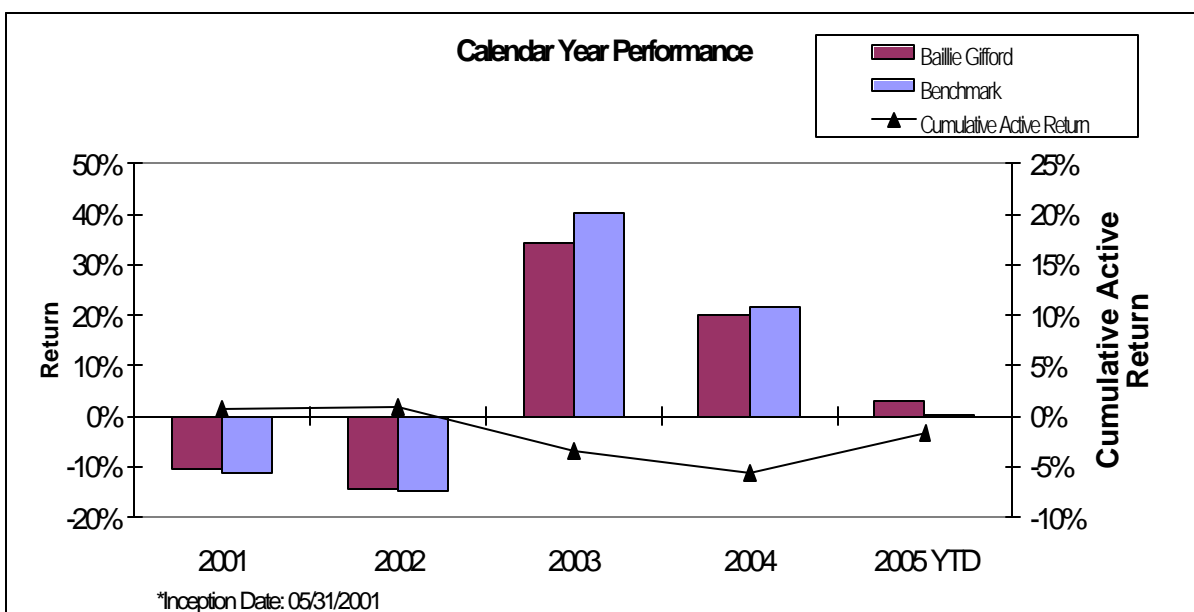
Baillie Gifford was funded on May 31, 2001. The firm's regionally organized stock selection teams identify high quality companies, using free cash flows to determine valuations. They then channel this company information to an Investment Policy Committee that determines overall regional allocation strategy. Country, sector, and stock deviation limits are set for the portfolio as a way of limiting risk. The portfolios holds 100 to 150 stocks. Assets under management as of June 30, 2005 were \$727.4 million.

Baillie Gifford's style intentionally includes a growth bias. With an increased focus on aggregate portfolio optimization, performance has improved. Both stock selection and allocations to countries and sectors contributed to the current fiscal year outperformance. Stock selections in energy and consumer staples contributed positively, while selections in health care and financial sectors detracted from relative performance.

| International Equity Manager | Fiscal Year 01/02 | Fiscal Year 02/03 | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|
| Baillie Gifford | (8.65)% | (5.48)% | 24.47% | 22.07% | 6.04% |
| Benchmark | (8.76)% | (4.58)% | 31.70% | 16.91% | 6.39% |
| Active Return | 0.11% | (0.90)% | (7.23)% | 5.16% | (0.35)% |

*Inception Date: 05/31/2001 Source: State Street Bank Returns are net of fees

The chart below shows Baillie Gifford's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Baillie Gifford's cumulative performance relative to the benchmark.



Capital Guardian (European Equity)

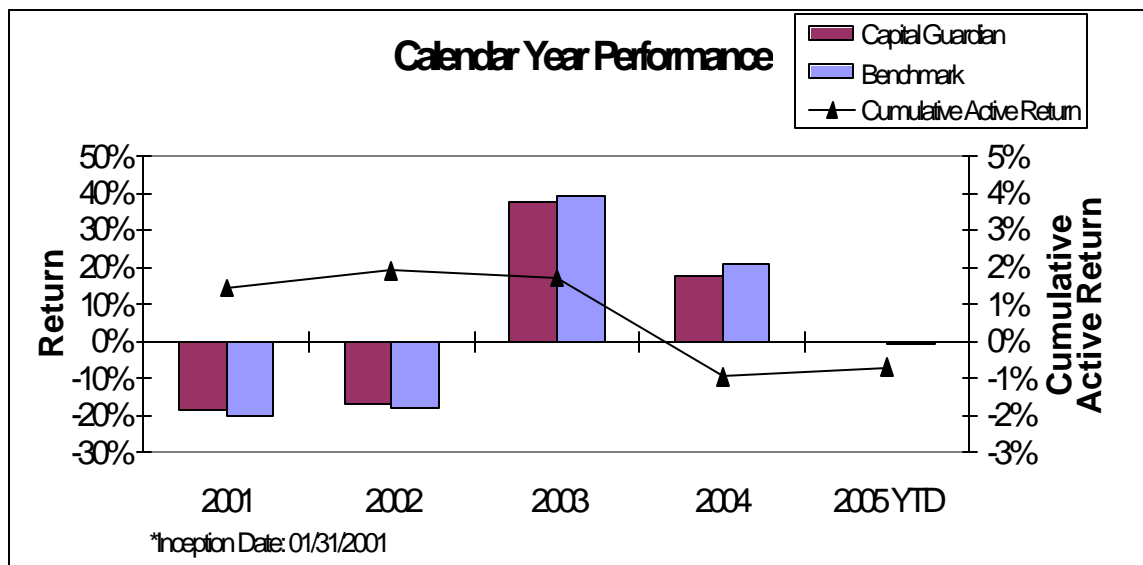
Capital Guardian was funded on January 31, 2001. This manager has a growth bias and utilizes a bottom-up investment process in a multiple portfolio manager process. The portfolio is divided among several portfolio managers with each making independent investment decisions. The research team also manages a portion of the portfolio and is the primary resource for investment ideas for the portfolio managers. The Investment Policy Committee oversees all portfolios for consistency and risk control. The portfolio typically holds between 100 to 200 stocks. Assets under management as of June 30, 2005 were \$513.5 million. During the fiscal year, staff reduced the assets under management of Capital Guardian by \$296.6 million.

Capital Guardian has underperformed by 0.14% since inception with the most difficult year being this last fiscal year. This underperformance is attributable to stock selection and sector allocation decisions. An overweight to the consumer discretionary sector hurt performance as well as stock selection in information technology and consumer staples.

| International Equity Manager | Fiscal Year 00/01* | Fiscal Year 01/02 | Fiscal Year 02/03 | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|
| Capital Guardian | (17.67)% | (6.12)% | (4.43)% | 29.44% | 14.54% | 2.08% |
| Benchmark | (17.06)% | (7.59)% | (4.72)% | 28.82% | 17.14% | 2.22% |
| Active Return | (0.61)% | 1.47% | 0.29% | 0.62% | (2.60)% | (0.14)% |

*Inception Date: 01/31/2001 Source: State Street Bank Returns are net of fees

The chart below shows Capital's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Capital's cumulative performance relative to the benchmark.



Dimensional Fund Advisors (Emerging Markets Equity)

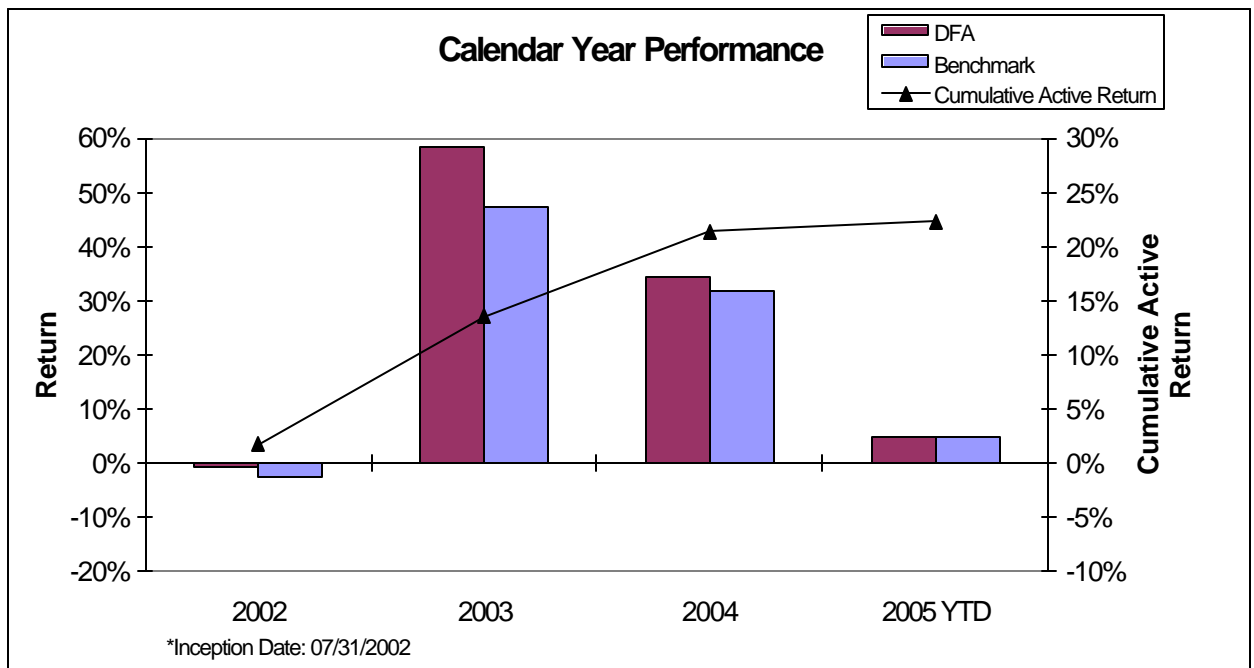
Dimensional Fund Advisors (DFA) was funded beginning on July 31, 2002. DFA invests in large, publicly traded companies representing the top 50% of each country's total market capitalization. In addition to CalPERS' Permissible Equity Markets list, each country in DFA's portfolio must pass DFA's quantitative and qualitative screening process and is assigned a fixed weight in the portfolio. KLD, a third party consultant for DFA, screens companies for issues associated with labor relations, human rights, and corporate social responsibility. The portfolio holds between 200 to 600 stocks. Assets under management as of June 30, 2005 were \$1.4 billion.

Since inception through June 30, 2005, DFA has outperformed its benchmark by 4.69% annualized. This outperformance was due to DFA's liquidity-based country selection process.

| International Equity Manager | Fiscal Year 02/03* | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|--------------------|-------------------|-------------------|-----------------------------|
| Dimensional Fund Advisors | 18.20% | 36.07% | 37.40% | 31.24% |
| Benchmark | 10.22% | 33.45% | 35.11% | 26.55% |
| Active Return | 7.98% | 2.62% | 2.29% | 4.69% |

*Inception Date: 07/31/2002 Source: State Street Bank Returns are net of fees

The chart below shows DFA's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures DFA's cumulative performance relative to the benchmark.



Genesis Asset Managers (Emerging Markets Equity)

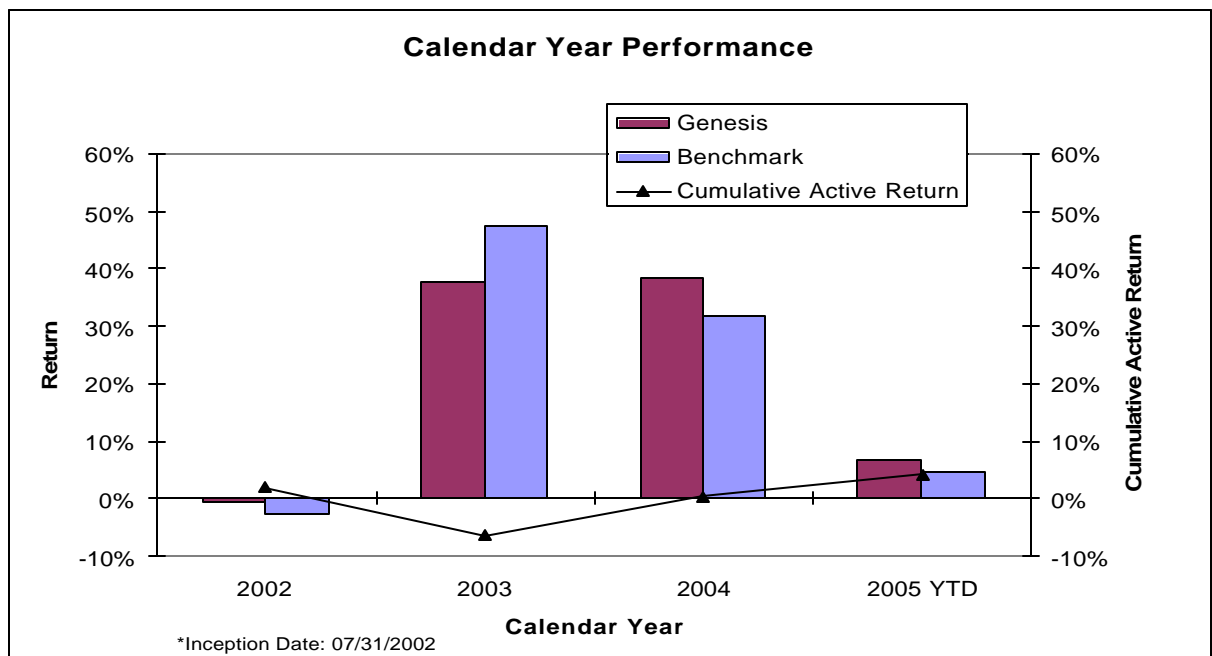
Genesis was funded on July 31, 2002. This manager's investment process utilizes a bottom-up stock selection approach. The country allocation of the portfolio is driven by the number of attractively priced stocks in the relevant markets within CalPERS Permissible Equity Markets list. The stock selection approach identifies and focuses on those attractively priced companies positioned to benefit from the rapid change occurring in their emerging economies. Portfolio holdings are typically between 55 to 80 stocks. Assets under management as of June 30, 2005 were \$1.15 billion.

Since inception through June 30, 2005, Genesis has outperformed its benchmark by 0.92% as shown below. Outperformance was due to the stock selection process over/underweighting countries, resulting in a large underweight to Taiwan and an overweight to Hungary.

| International Equity Manager | Fiscal Year 02/03* | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|--------------------|-------------------|-------------------|-----------------------------|
| Genesis | 9.43% | 30.95% | 41.63% | 27.47% |
| Benchmark | 10.22% | 33.45% | 35.11% | 26.55% |
| Active Return | (0.79)% | (2.50)% | 6.52% | 0.92% |

*Inception Date: 07/31/2002 Source: State Street Bank Returns are net of fees

The chart below shows Genesis' performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Genesis' cumulative performance relative to the benchmark.



Grantham, Mayo, Van Otterloo & Co. (All-World International Equity)

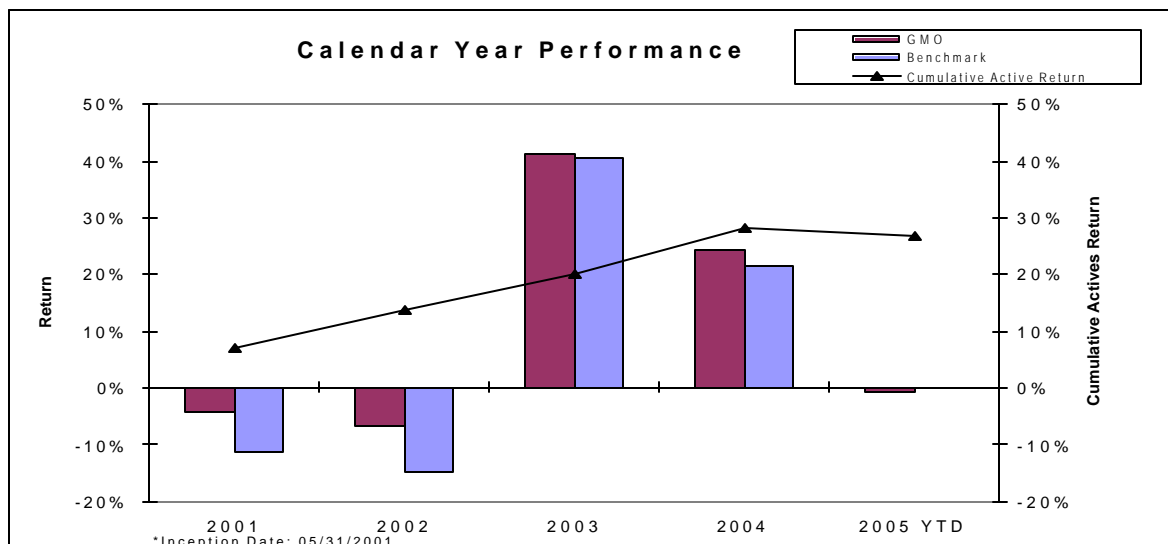
Grantham, Mayo, Van Otterloo & Co. (GMO), funded on May 31, 2001, believes the successful selection of value stocks leads to the best risk adjusted returns. Through the combination of quantitative analysis and fundamental research, a value portfolio is constructed. After screening 4,000 companies, approximately 1,200 companies are scrutinized for financial, operational, and management strength. The portfolio manager selects 200 to 350 stocks with the most exceptional value, while managing risk through country diversification. Stocks are sold when valuations are high and unsupported by the underlying fundamentals, or due to concerns about management or business changes. Assets under management as of June 30, 2005 were \$911.6 million.

Stock selection and allocations to countries and sectors contributed to the current fiscal year underperformance. However, selections in Japan, a challenging market, contributed positively to performance, as did selections in information technology, while selections in energy and health care hurt relative performance. However, as shown in the table below, this manager has outperformed since inception.

| International Equity Manager | Fiscal Year 01/02 | Fiscal Year 02/03 | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|
| GMO | 2.52% | (1.12)% | 33.39% | 16.27% | 11.45% |
| Benchmark | (8.76)% | (4.58)% | 31.70% | 16.91% | 6.39% |
| Active Return | 11.28% | 3.46% | 1.69% | (0.64)% | 5.06% |

*Inception Date: 05/31/2001 Source: State Street Bank Returns are net of fees

The chart below shows GMO's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures GMO's cumulative performance relative to the benchmark.



Nomura Asset Management (Pacific Basin Equity)

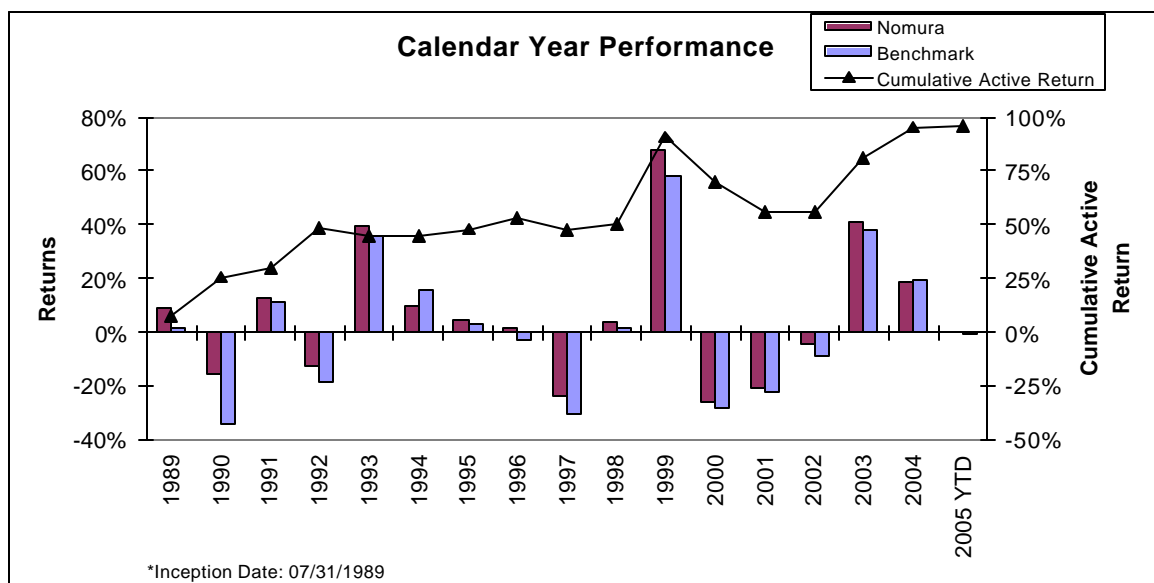
Nomura Asset Management (NAM) was funded on July 31, 1989 and was rehired in 1994 and 2001. NAM's investment process focuses on stock selection while considering the macroeconomic environment. The stock selection process targets companies with sustainable growth, utilizing a quantitative stock screening process and fundamental company analysis. The portfolio holds between 180 to 200 stocks. Assets under management as of June 30, 2005 were \$805.3 million.

NAM has outperformed its benchmark since inception of August 1989 through June 30, 2005 by 4.71% annualized. This performance has been consistently attributable to positive stock selection in Japan. The last fiscal year NAM underperformed due to their initial negative economic outlook for Japan and Australia. They have since revised this outlook and have gone to neutral weightings in the portfolio, adding value in the last quarter.

| International Equity Manager | Fiscal Year 00/01 | Fiscal Year 01/02 | Fiscal Year 02/03 | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|
| Nomura | (29.60)% | (4.10)% | (6.29)% | 39.26% | 10.59% | 3.91% |
| Benchmark | (28.61)% | (10.76)% | (8.72)% | 38.40% | 11.15% | (0.80)% |
| Active Return | (0.99)% | 6.66% | 2.43% | 0.86% | (0.56)% | 4.71% |

*Inception Date: 07/31/1989 Source: State Street Bank Returns are net of fees

The chart below shows NAM's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures NAM's cumulative performance relative to the benchmark.



Robeco USA (All-World International Equity)

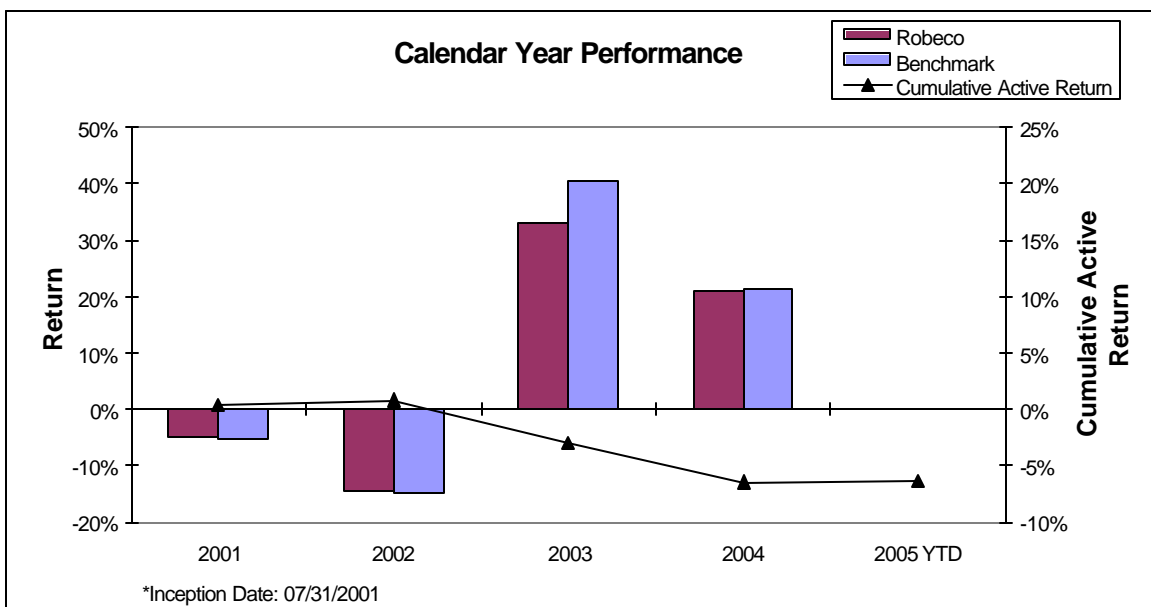
Robeco was funded on July 31, 2001. Robeco utilizes a highly research driven, quantitative investment process, which combines a top-down regional, currency and sector allocation with a bottom-up stock selection process. The Investment Policy Committee makes the top-down decisions. The stock selection process is the responsibility of investment teams of portfolio managers with different sector and country specializations. Holdings typically range from 120 to 160 stocks. Assets under management as of June 30, 2005 were \$392.9 million. During the fiscal year, staff reduced the assets under management of Robeco by \$298.9 million.

Contributing positively to the portfolio's performance was strong performing stocks in the Pacific Basin. Offsetting the positive performance was weak performance in the United Kingdom. Since inception, Robeco has underperformed its benchmark as shown in the table below.

| International Equity Manager | Fiscal Year 01/02 | Fiscal Year 02/03 | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|
| Robeco Group | (5.96)% | (6.90)% | 27.66% | 17.51% | 7.18% |
| Benchmark | (8.76)% | (4.58)% | 31.70% | 16.91% | 8.48% |
| Active Return | 2.80% | (2.32)% | (4.04)% | 0.60% | (1.30)% |

*Inception Date: 07/31/2001 Source: State Street Bank Returns are net of fees

The chart below shows Robeco's performance versus its benchmark. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures Robeco's cumulative performance relative to the benchmark.



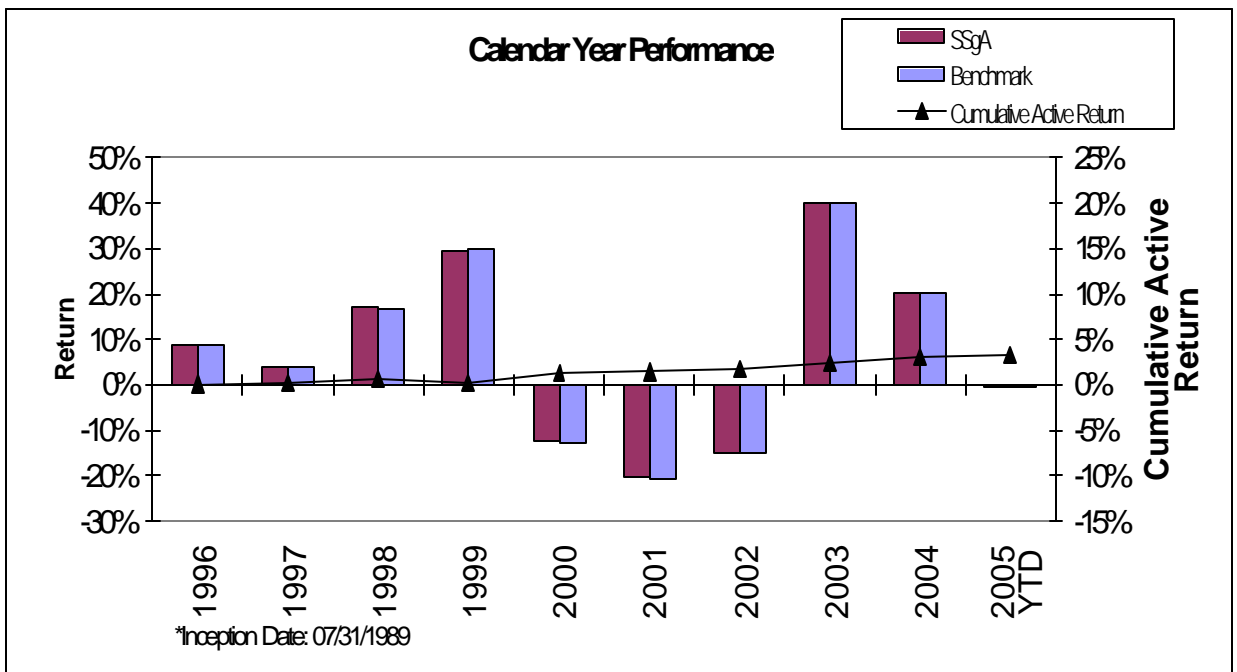
State Street Global Advisors (Developed Mkts International Passive Equity)

State Street Global Advisors (SSgA) was funded on July 31, 1989 and rehired in 1994 and 2002 as a passive international equity manager. SSgA's benchmark and mandate have changed during the time the firm has managed money for CalPERS. Currently, its mandate is to provide diversified equity participation across and within developed international equity markets at a low cost. Expecting to be fully invested at all times, this fund holds minimal cash. Country weightings are comparable to that of the designated benchmark and tracking error is low. Assets under management as of June 30, 2005 were \$25.1 billion.

| International Equity Manager | Fiscal Year 00/01 | Fiscal Year 01/02 | Fiscal Year 02/03 | Fiscal Year 03/04 | Fiscal Year 04/05 | Annualized Since Inception* |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------|
| State Street Global Advisors | (21.47)% | (9.08)% | (4.68)% | 31.55% | 15.03% | 4.74% |
| Benchmark | (21.93)% | (9.02)% | (5.10)% | 31.55% | 14.88% | 4.94% |
| Active Return | 0.46% | (0.06)% | 0.42% | 0.00% | 0.15% | (0.20)% |

*Inception Date: 07/31/1989 Source: State Street Bank Returns are net of fees

The graph below shows SSgA's performance versus its benchmark for the last ten calendar years. The axis on the left measures the manager's calendar-year performance against its benchmark. The right axis measures SSgA's cumulative performance relative to the benchmark.



Recommendation

Staff recommends renewal of the contracts for all eleven international equity managers for a period of one year. Each contract contains a provision allowing for termination on 30 days' notice.

V. STRATEGIC PLANS:

External investment manager performance is monitored by staff and reported to the Investment Committee per CalPERS Strategic Plan, Goal IV: Assure that sufficient funds are available, first, to pay benefits and, second, to minimize and stabilize employer contributions.

VI. RESULTS/COSTS:

The purpose of this item is to renew external investment manager contracts for a one year time period and to keep the Investment Committee informed of the external international equity manager program performance.

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